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SUBJECT: Economic Review, January - September 1954
Army-4 Navy-3 Air-4 XMB-3 USIA-10 CL-2

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I. Introduction and Summary

(NOTE - This review covers the first nine months of 1954. It was prepared to a large extent by officers who were not in Indonesia during the period. That will explain the reason for many of the gaps and should be read with that in mind.)

During the first part of 1954 Indonesia's finances continued to deteriorate. Corrective measures were being instituted, however, so that the outlook by the end of the third quarter of 1954 was somewhat brighter than had been anticipated. The Government continued its policy of deficit financing, while the foreign exchange and gold reserves were further depleted. There was also an increase in Bank Indonesia notes in circulation.

To halt the excessive depletion of its foreign exchange reserves and to compensate for the decreased value of its exports the Government took measures, with a certain degree of success, to control and direct the country's imports. Compared to 1953 imports have decreased, although not enough as yet to give Indonesia an export balance in its general commodity trade. It is expected, however, that by the end of 1954 Indonesia will have a favorable balance of trade.

In the agricultural sector conditions appear to be more favorable than those existing during the corresponding period in 1953. Exports of rubber increased during the first six months of 1954, as compared to 1953, although the total value was less. Production of rice is up approximately 11% over 1953. The need for rice imports decreased, with imports limited to 100,000 metric tons for price stabilization and reserve purposes. There has been a sizeable increase in exports of smallholders production of sugar and coffee, copra and tea.

Petroleum and manganese production expanded over the corresponding period in 1953. Production of coal and bauxite declined, while that of tin remained more or less the same. Exports of manganese declined while those of tin and bauxite increased.

On the labor front there were no drastic changes during the period under review. There were no major strike actions during the first eight months.

In the field of transportation, the Government has acquired full ownership of the Garuda Indonesian Airways. New routes have been opened to some of the outlying islands. The national shipping companies, on the other hand, continue to face difficulties.

There has been a gradual expansion of industry, with emphasis being placed on small and handicraft industries. The Government has also been moving ahead with its policy for the Indonesianization of industry.

II. Foreign Trade

On the basis of statistics for the first eight months of the year, Indonesia's foreign trade picture for 1954 shows some improvement over that of the preceding year. Through August, exports (excluding petroleum) totalled Rp. 4,446,900,000 (Rp. 11.40 = $1.00) and imports Rp. 4,823,700,000. The average monthly exports of Rp. 555,800,000 are some 10 percent below the average for the 12 months of 1953. Imports, averaging 603 million rupiahs a month, have also decreased compared with the previous year, but not yet enough to give Indonesia an export balance in its general commodity trade. However, if the special category of petroleum and products is not deducted from the trade statistics, the country's import balance of 376 million rupiahs (through August) becomes an export balance of 969 million, the most favorable situation since 1951. The projected 1954 commodity export balance of well over a billion rupiahs will cover the larger part of the country's net payments on account of "invisibles", which will leave Indonesia with only a slight deficit in its balance of payments this year.

The figures in the preceding paragraph indicate that the Indonesian Government is meeting with some success in its efforts to control and direct the country's import trade in order to compensate for the decreased value of its exports and to halt the excessive depletion of its foreign exchange reserves which occurred in the earlier months of this year. The local press recently quoted an unnamed official of the Ministry of Economic Affairs as saying: "Every import must be covered by exports." There is some basis for believing that this policy is being implemented by (1) the curtailment of imports, (2) the increased interest in bilateral trade agreements and (3) the more frequent use of parallel, compensation and barter transactions.

Bilateral Trade Agreements

Continuing and intensifying a previously established policy, Indonesia signed new or renewed bilateral trade agreements with nine countries (five in the Soviet bloc) during the first nine months of the year. These agreements were:

Country			
Denmark	January 26, 1954	December 31, 1954	Not available
Norway	March 24, 1954	March 31, 1955	NKr. 80,000,000
France	June 22, 1954	February 21, 1955	FFr. 10,800,000,000
Hungary	June 22, 1954	June 30, 1955	Rp. 130,500,000
Poland	July 1, 1954	April 30, 1955	Not available
Czechoslovakia	July 8, 1954	July 14, 1955	Not available
Sweden	July 29, 1954	May 30, 1955	SwKr. 94,100,000
Rumania	August 6, 1954	June 30, 1955	Pounds 3,400,000
China	September 1, 1954	July 31, 1955	Pounds 6,000,000

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Also, a private contract between the Indonesian and East German Chambers of Commerce has been negotiated but not yet implemented, reportedly because of "technical-administrative" difficulties. An official of the Ministry of Economics has expressed the hope that annual trade between Indonesia and East Germany will amount to the equivalent of $2,500,00 each way.

An informal compensation arrangement with Hong Kong was withdrawn in February, after some five or six months duration, because it "gave rise to all sorts of undesirable manipulations." However, this barter system was reinstated, on a more limited scale, in mid-April.

The main purposes and provisions of Indonesia's bilateral trade agreements may be summarized as follows:

1. To assure the country of export markets, especially for commodities which have weakened in price or are losing traditional markets.

2. To have trade direct with buyers and suppliers, thus lessening the country's dependence on the transit traders of the Netherlands, Hong Kong and Singapore.

3. To place a larger share of the country's imports and exports in the hands of national importers. This is specifically provided for in the agreements with Soviet bloc countries.

4. To have direct bilateral financial clearances, thus avoiding use of the Netherlands as the country's international bankers.

Import and Export Regulations

The regulatory actions of Indonesia's financial and trade officials were directed during the period under review towards the curtailment of imports in order to halt the drain on the country's foreign exchange reserves. A second major policy, the Indonesianization of foreign trade was also the subject of governmental regulation and administrative action. The Government also continued its efforts to conduct Indonesia's trade direct with its overseas markets and suppliers in order to avoid what it considered excessive charges by transit traders in the Netherlands, Hong Kong and Singapore. Lastly, the Indonesian authorities have given priority to the importation of capital goods (including industrial raw materials) over consumer goods.

The first action of 1954, on New Year's Day, was the discontinuance of the two-year old dollar export certificates (B.E.O.) system, because, according to the Bank Indonesia, it has outlived its purpose of promoting trade to dollar countries and limiting imports from these countries. It may be conjectured that there is some connection between this action and the decrease in American-Indonesian trade this year.

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A regulation of somewhat minor importance, but illustrative of the general trend during the period under review is a Ministerial Decree of February 19, 1954 prohibiting the inclusion of buying commissions in the calculation of the prices of goods purchased abroad. The practical effect of this measure is believed to be small, inasmuch as the great majority of import transactions are on the basis of discounts from list prices. Presumably, transactions previously showing purchasing commissions have been recalculated on the basis of list prices with discounts unrevealed to the Indonesian authorities. However, American buying representatives and export commission houses, which normally include a commission in their invoices, have been adversely affected by the measure.

One of the Government's basic policies was implemented by a regulation dated March 19 which again emphasized, and attempted to enforce, the prohibition against "accommodation", the practice of the sale of import licenses by national to non-national importers (see Despatch No. 614, March 30, 1954, "New Regulations on Indonesianization of Import Trade). This subject was one of continuing action during the reporting period, lastly on September 30, when it was reiterated in an Instruction from the Foreign Exchange Institute to the banks. Briefly, the Government prohibited any transfer of foreign exchange licenses except in the case of retailers purchasing through an agent or companies which purchase raw materials on an "indent" basis. The Embassy has no objective data available to determine the success or failure of this phase of the Indonesianization policy, but it is inclined to believe, on the basis of trade source information, that the traffic in foreign exchange licenses has far from ceased.

In May, the rapid decrease in the country's foreign exchange reserves motivated a drastic reduction in the rate of issuance of import licenses. Two months later, in order to make importation more difficult, the authorities increased the percentage of prepayment in local currency required for the issuance of an import license. This deposit was set at 75 percent (formerly 50 percent) for capital goods and industrial raw materials, and 100 percent (formerly 75 percent) for other commodities. The banks require the importer to deposit an additional 10 percent of the rupiah countervalue to cover interest and other charges connected with the transaction. As pointed out in the Embassy's Despatch 21, July 15, 1954, "Import Controls", the substantial prepayment has the tendency of encouraging national Indonesian importers, who are generally short of capital, to sell their licenses to the financially stronger Chinese or Dutch firms. The Despatch mentioned above also commented on the inflationary effect of the prepayment regulation, in spite of its declared deflationary purpose of absorbing the so-called "hot money" presumed to be in the hands of non-national traders.

In order to (1) direct import trade to countries with which Indonesia has trade agreements and (2) prevent the sale of foreign exchange licenses, a Small Businessmen's Foreign Exchange Regulation was introduced in September. A significant provision of this regulation is one reserving for national importers or retailers the right to purchase from Czechoslovakia, Hungary, Poland, Rumania and East Germany.

In the field of export regulation, the Inducement Certificate System (Bukti Indusemen - B.I.) introduced in October 1953 was continued. This system may be entitled to some of the credit for the fairly favorable expert activity of Indonesia this year, but it also appears to have much of the responsibility for the increased prices of imported goods on the Indonesian market.

Balance of Trade

Although the 1954 overall trade picture of Indonesia varies only slightly from that of 1953, rather significant changes in its geographical orientation and commodity composition have taken place. Tables 1 and 2 below show the origin and destination of Indonesia's imports and exports by continents during the first six months of 1954 compared with the same period of 1953.

Table 1. Imports of Indonesia by Continents, January - June, 1954 and 1953
(Quantity in metric tons; value in thousands of rupiahs)

	1954 Jan.-June		1953 Jan.-June	
Origin	Quantity	Value	Quantity	Value
Europe	321,598	1,238,210	335,893	1,352,735
America	101,215	533,008	155,140	800,336
Africa	21,106	69,522	13,424	32,005
Asia	1,331,800	1,987,475	1,400,456	1,828,095
Oceania	61,864	89,575	34,053	60,694
Others	4,728	5,209	9,825	5,703
Totals	1,842,311	3,922,999	1,948,791	4,079,567

Table 2. Exports of Indonesia by Continents, January - June, 1954 and 1953
(Quantity in metric tons; value in thousands of rupiahs)

	1954 Jan.-June		1953 Jan.-June	
Destination	Quantity	Value	Quantity	Value
Europe	763,694	1,475,640	730,312	1,472,585
America	1,045,818	774,856	1,306,234	1,160,850
Africa	42,243	38,485	65,341	51,578
Asia	3,088,255	1,761,417	2,748,190	1,414,947
Oceania	434,064	174,197	303,589	130,135
Others	354,501	116,844	400,042	141,810
Totals	5,728,575	4,341,439	5,553,709	4,371,906

Source: Central Bureau of Statistics.

The most striking feature in the two tables is the considerable decrease in Indonesia's trade with the Americas (meaning primarily the United States). During the first six months of the year, the United States definitely lost to Japan the position of being Indonesia's leading supplier, accounting for only Rp. 525 million of the country's imports compared to Japan's 997 million.

Table 3 summarizes trade by principal nations during the first half of 1954. Figures for the entire year 1953 are added for comparison on an annual rate basis.

Table 3. Indonesia: Imports to and Exports from Principal Trading Partners (Year 1953, and Jan.-June 1954) (Value in thousands of rupiahs)

Country	Imports Year 1953	Imports Jan.-June 1954	Exports Year 1953	Exports Jan.-June 1954
United States	1,539,367	524,970	1,929,947	738,590
Netherlands	1,006,790	402,370	2,103,867	949,860
Malaya-Singapore	125,890	33,040	2,287,313	1,060,260
Japan	1,447,012	997,430	423,612	184,740

Source: Central Bureau of Statistics, Monthly Survey, September 1954.

The import figures for the Netherlands and Singapore indicate that the Indonesian Government is having some success in its efforts to lessen its dependence on the entrepot trade of these two countries. This trend is much less marked in the case of Indonesia's exports. On October 7 an official of the Ministry of Economics announced that since mid-February purchases outside the Netherlands had been paid in the currency of the countries concerned and no longer in Dutch guilders. He also claimed that transit trade via the Netherlands had been no longer allowed for some time. Although these two statements are not entirely supported by the foreign trade statistics and are not entirely in conformity with Indonesia's associate membership (via the Netherlands) in the European Payments Union, they do illustrate one goal of Indonesia's commercial policy.

The shift in the commodity export pattern is shown in the following list of Indonesia's principal export products during the first half of 1953 and 1954. Value is given in thousands of rupiahs.

Commodity	January-June 1953	January-June 1954
Tea	133,484	201,200
Palm Oil	196,641	269,585
Rubber, Estate	857,551	521,058
Rubber, Smallholder	795,864	659,712
Copra	252,435	319,870
Coffee	78,706	235,725
Petroleum	1,036,716	1,196,984
Tin	405,173	300,565

This table indicates that as Indonesia's largest export crop, rubber, falls in value because of lower prices, other products, recently of secondary importance, are tending to stabilize the country's export situation, or at least to prevent it from becoming dangerously weak. This development is expecially notable in the case of coffee, palm oil and tea. The contribution of the petroleum industry to Indonesia's export trade has been pointed out in the first portion of the Foreign Trade Section of this Review.

The fairly satisfactory trade balance of Indonesia during the first three quarters of 1954 is due more to the curtailment of imports than to the stabilization of its exports. The following list shows the country's imports by principal commodities during the first half of 1954 compared with the same period of 1953. Value is given in thousands of rupiahs.

Commodity	January-June 1953	January-June 1954
Rice	627,241	330,537
Wheat flour	72,939	91,848
Cotton Piece Goods:		
Bleached & Unbleached	257,237	285,106
Dyed, printed, etc.	343,237	561,716
Petroleum products	267,482	226,012
Machinery, Industrial and Commercial	147,609	148,502
Motor vehicles	81,181	50,738

Source: Central Bureau of Statistics, Monthly Survey, September 1954.

Inasmuch as the sharp cutback in import licensing started only in May, the above list does not reflect the full extent of Indonesia's program for reducing imports this year. The country's decreased dependence on rice imports shows up most clearly in the table, but the Embassy believes that 1954 imports of practically all commodities will be lower than those of 1953 when the final data are available.

Recent slight rises in the prices of some of Indonesia's export products, especially rubber, give some hope that terms of trade may have become a little more favorable for the country. On the basis of 1950 = 100, the terms of trade index was at 68 in December 1953, with the expert price index at 81 and the imports index at 119. Some improvement in the terms of trade, maintenance of the export volume of the past months and a continuation of import restrictions will give Indonesia a definitely "favorable" balance of trade in 1954.

III. Finance

The state of Indonesia's finances during the first half of 1954 was one of continual deterioration. Despite lack of unity in the Monetary Council, however, sufficient corrective measures were being instituted to make the outlook by the end of the third quarter of 1954 somewhat less ominous than most prognosticators had been willing to assume earlier.

A. The 1954 Budget

Whereas the former administration (in which Sumitro was Minister of Finance) had achieved something of a record in submitting to Parliament a draft budget law (for 1953, as well as 1952) before the beginning of the calendar-fiscal year, Parliament itself did not get around to approving the 1952 and 1953 budgets until April 1954. Although the 1953 budget indicating a deficit of Rp. 1.8 billions was ratified, the deficit arising from the difference in actual revenue and expenditures amounted to over Rp. 2.3 billions. Furthermore, a carry-over of expenditures from the 1952 budget amounting to about Rp. 700 millions, led to a gross annual deficit of about three billion rupiahs for 1953. To legalize the difference between the real and the budget deficit, the Ministry of Finance has long been considering submitting a second supplementary budget for 1953 to Parliament. The first supplementary budget increased both the original budget's revenue and expenditures by Rp. 1.7 billion arising from revaluation of the Bank Indonesia gold holdings in early 1953.

A draft budget for 1954 was sent to the Cabinet by the Minister of Finance at the end of March 1954. At that time the Minister and other officials spoke of holding the current year's deficit to Rp. 1.2 billion. As the several ministries could not agree to pare down their own expenditures and as several revenue items failed to come up to expectations, it became apparent that the deficit would be much larger. The overdue draft budget, which finally was submitted to Parliament on July 7, called for a deficit of Rp. 2.6 billion, being the difference between expenditures of Rp. 13.6 billion and revenue of Rp. 11.0 billion. Then, the Notes on the State Finances accompanying the Indonesian Budget for 1954 (or Financial Notes) submitted to Parliament weeks afterwards confirmed that a supplementary budget would be necessary to cover additional expenditures and revenues leading to a further deficit of Rp. 400 million, a figure arrived at long before the primary deficit was agreed upon.

Details of the basic budget for 1954 and its explanatory financial notes may be found in Despatches 203 and 204 of October 13, 1954. The one billion rupiah additional expenditures which will appear in the supplementary budget is to be offset primarily by a new revenue item, the T.P.T. (surcharge on transfers abroad). A sanguine estimate of Rp. 700,000,000 income from this item by the Minister of Finance in April has since been superseded by one of Rp. 400,000,000. Talk of a new national bond issue1/ of Rp. 300,000,000 broached by the Minister of Finance in April, has dwindled to nothing. Instead

1/ Government Regulation No. 3 of 1954 authorizes the issuance of 4½% 5-year bonds in value up to half a billion rupiahs, in addition to the special bonds resulting from membership in the I.M.F. and I.B.R.D.

(Classification)

there are expected to materialize Rp. 100,000,000 from foreign loans (primarily Dutch), and another Rp. 100,000,000 from supplementary revenue merely classified as miscellaneous.

The State deficit in 1953 was covered as follows:

Increase in debt to Bank of Indonesia	Rp.	720 million
Revaluation of gold	"	1,730 million
Increases in other debts	"	440 million
Increased treasury bonds, currency, coins	"	140 million
	Rp.	3,030 million

In 1954 recourse to another gold revaluation will be impossible unless the rupiah is further devalued. By September 29, 1954, the debt to the Bank Indonesia had increased another Rp. 2,740 million, or ninety percent of the total year's budgetary deficit, before the last quarter of the year. Other data on the deficit coverage is not yet available, although Ministry of Finance officials are somewhat hopeful that some loans from abroad might be realized before the year's end.

The following table shows actual expenditures by ministry, or other category, for 1953 and figures in the original 1954 budget (in millions of rupiahs):

	Organization	1953 Expenditures	1954 Budget
I.	Supreme Government Bodies	1,131	1,197
II.	Min. of Foreign Affairs	204	109
III.	Min. of the Interior	2,178	1,640
IIIA.	Min. of Agrarian Affairs	--	24
IV.	Min. of Finance	885	1,048
IVA.	Financing Service (and Govt. Enterprises)	3,158	2,309
VA.	Min. of Agriculture	461	531
VB.	Min. of Economic Affairs	1,143	776
VI.	Min. of Defense	3,876	3,000
VII.	Min. of Justice	190	258
VIIIA.	Min. of Communications	371	421
VIIIB.	(ditto) Department of Shipping	156	100
IX.	Min. of Information	153	150
X.	Min. of Education and Culture	858	750
XI.	Min. of Health	225	329
XII.	Min. of Social Affairs	154	189
XIII.	Min. of Labor	51	68
XIV.	Min. of Religious Affairs	178	163
XV.	Min. of Public Works & Power	581	500
	Total Gross Expenditures	15,951	13,562
	Receipts offsetting Expenditures	n.a.	2,807
	Total Net Expenditures	n.a.	10,755

Source: Despatch 761, June 25, 1954; Draft 1954 budgets submitted to Parliament.

As can be seen, the Ministry of Defense still takes the lion's share of the State Budget, and will continue to do so in the future, especially so long as insecurity prevails in parts of North Sumatra (where the Atjeh revolt is still far from quashed), West Java (home of the Darul Islam and other subversive movements, Southeastern Kalimantan, and Southern Sulawesi (where the territorial commander has resorted to smuggling, allegedly to supplement his meager receipts from the central Government in his campaigns against the rebels).

Provisional data for the first five months of 1954, and for a comparative period in 1953, are presented by major revenue grouping in the following table:

	Revenue Category	Jan/May 1953	Jan/May 1954
I.	Assessed taxes	981	928
II.	Unassessed taxes	367	420
III.	Custom duties and excises	1,432	1,362
IV.	Government Enterprises receipts 1/	191	274
V.	Miscellaneous	3,533	1,479
	Total	6,503	4,463

Source: Ministry of Finance, Office of Financial Statistics, Budget & Cash.

The 1954 figures do not compare too unfavorably if, for purposes of extrapolation, it is recalled that the "Miscellaneous" item, and therefore the total, of the 1953 figures includes the Rp. 1,734 million from the gold revaluation which took place in March and May only of 1953.

Major sources of revenue (in millions of rupiahs) through May 1954 were: (1) company tax, 625 (13% off from 1953); (2) import duties, 500 (8% over 1953); (3) inducements (import surcharges), 496 (18% off 1953); (4) tobacco excise 2/, 382; (5) income & wage taxes, 379; (6) Government Enterprises receipts, 274; (7) sales tax, 257 (9% over 1953); (8) export duties, 247 (down 45% from 1953); (9) petroleum excise, 158; (10) transfer surcharge, 108 (collected during only the latter half of the period and not yet written into the budget); and (11) Exim-bank loans 104 out of 350 budgeted for the year, compared to 49 through May out of 151 realized in 1953--an amount far below the year's budget figure of 380 for 1953). Moreover, a major source of revenue in 1953, the Foodstuffs Foundation which contributed Rp. 200 million through May, did not appear through May 1954 (only reappearing in June) due to a reported surfeit of rice and some difficulties within its administration. Profits from the Foreign Exchange Fund, which amounted to Rp. 159 million through May 1953, had fallen to only Rp. 52 million through May 1954. One new important source of revenue for 1954 which promises to be of more than incidental interest, is the accumulated E.C.A. counterpart funds of approximately half a billion rupiahs.

1/ Budget figures only.

2/ Although excises of liquor and beer brought in only Rp. 15 million through May, this sum is far above the 1953 amount because of increased excise rates in Emergency Law No. 1 of 1954.

Whereas Government revenue during the first five months of 1954 was only slightly below five-twelfths of the basic budget, expenditures (see Appendix I) in many cases were running far ahead of the basic budget. This phenomenon created a State deficit by the end of May which was far greater than anticipated by the budget for the five months:

Government Fiscal Transactions, January - May 1954
(in millions of rupiahs)

	Actual Transactions	Budget
Expenditures	6,072.8	5,650.8
Revenue	4,463.2	4,571.2
Deficit	1,609.6	1,079.6

Source: Ministry of Finance.

The budget figures in the above table refer only to five-twelfths of the basic budget for 1954; actual transactions include the T.P.T. revenue and also several expenditure items not included in the basic budget. If the deficit rate through the first five months of 1954 continues, an annual deficit of Rp. 3.8 billions might be anticipated. However, since June is usually a month of high receipts from the company tax, and pressure has been increasing to hold the line by economizing on budgetary expenditures, it is not impossible that the State deficit for 1954 may be held to only slightly over the current target of three billions.

B. The Foreign Exchange Position

Losses in foreign exchange are closely related to the increased budgetary deficit, which in turn is correlated to reduced revenues from foreign trade. The Financial Notes reported that the net foreign exchange position at the beginning of 1953 had been Rp. 3,617 million, and noted that the Rp. 1,386 million lost during that year resulted from a favorable trade balance of only Rp. 368 million (calculating on a payments basis exports at Rp. 7,596 million and imports at Rp. 7,228 million) as against an unfavorable invisibles balance of Rp. 1,754 million.

The net foreign exchange position on June 30, 1953, was Rp. 3,106 million, which indicates that the bulk of the losses, namely Rp. 875 million, took place during the second half of 1953. The breakdown of the position at the beginning of 1954 appears in the following table:

Net Foreign Exchange Position, January 1, 1954
(in millions of rupiahs)

Gold in the Bank Indonesia	Rp. 1,651.3
Gold in the Foreign Exchange Fund	36.7
Foreign exchange assets, Bank Indonesia	560.2
Net exchange assets, nine other exchange banks	658.1
Net liabilities, Foreign Exchange Fund	- 822.1
Others (American oil companies, Government mining companies, High Commissioner's Office, etc.)	146.9
Net foreign exchange	Rp. 2,231.1

Source: Ministry of Finance.

Ministry of Finance officials acknowledge that their rates and times of daily foreign exchange calculations differ from those of the Bank Indonesia, but this explanation can hardly justify a notation of net FEF liabilities of about one hundred million less than that calculated by the Bank Indonesia (Rp. 923.0 million).

The deterioration of the net foreign exchange position during the first half of 1954, Rp. 1,272 million was serious--over twice the loss of Rp. 600 million anticipated for the entire year by the Government in its Financial Notes. The mid-year nadir appears in the following table:

Net Foreign Exchange Position, June 30, 1954
(in millions of rupiahs)

Gold in the Bank Indonesia	Rp. 1,256.2
Gold in the Foreign Exchange Fund	36.7
Foreign exchange assets, Bank Indonesia	388.5
Net exchange assets, nine other exchange banks	619.5
Net liabilities, Foreign Exchange Fund	- 1,307.0
Others	- 34.9
Net foreign exchange	Rp. 959.0

Source: Ministry of Finance, Bank Indonesia

The Government had set a target loss in foreign exchange of Rp. 600 million during 1954, representing the excess of invisibles (Rp. 1,800) over the anticipated favorable trade balance (exports of Rp. 7 billion minus imports of Rp. 5.8 billion). As stated in the Financial Notes, this Rp. 600 million was the maximum loss permissible in view of the requirements for working capital for the exchange banks and the necessity of maintaining reserves for the current liabilities of the Bank Indonesia.

Despite mid-year statements by the Minister of Foreign Affairs of Indonesia's intention to meet all her international monetary obligations, in June and the following months of July and August, Indonesia defaulted on her payments due on

her unfavorable trade balance with Japan, which has accumulated over recent years to $160,000,000.1/ By defaulting on payments equivalent to about Rp. 190 million over this three-month period, the Indonesian Government was temporarily able to stem the net outflow of foreign exchange. This action by Indonesia to use the settlement of current accounts as a lever to stimulate Japan to reach a reparations agreement, produced retaliation on the side of the Japanese Government, which ordered drastic restrictions in exports to Indonesia, even to the point of prohibiting the export of textiles, Indonesia's primary consumers import.

However, although Indonesia chose to ignore her debts with Japan, she is meeting the Rp. 230 million in payments due on Government loans from the Netherlands, the United States, Canada, and Australia. She also has indicated her readiness to pay for road, rail, sea, and air transportation equipment from abroad. A crew sent to Japan to pick up two ships for the Government shipping subsidiary, N.V. INACO, was forced to wait until payment was made, however, before the Japanese would turn the vessels over to them. Indonesia has also paid for new Convair 340s, although she hopes the Eximbank will eventually provide her with reimbursement from the balance of the $100 million line of credit being extended her. In March, the Indonesian Government bought out the half interest of KLM-Royal Dutch Airlines in the Garuda Indonesian Airways. Also by mid-year, the Government had bought out the private stockholders (primarily Dutch) of the Djakarta transportation system, as authorized by Emergency Law No. 10 of 1954.

Vice President Hatta, considered to be one of the country's leading economists, in one of his many lectures before members of the business community warned that what the country needed now was foreign capital, not nationalization of old already operating enterprises. Although his words went practically unnoticed, fiscal pressures have begun to force a slow-down on nationalization plans. A commission had been set up to inspect one of the country's largest electricity enterprises, N.V. Aniem, and it decided that the Government should start buying out its Dutch owners in August of 1954. When August drew near, however, the Government announced that buying up of Aniem shares would be postponed for a few months. It now looks like it will be next year before the Government will be in a position to begin buying into this company or a number of others in the public utilities field which had once been scheduled for nationalization. Because of lack of foreign exchange, the Indonesian Army around the middle of the year was unable to open letters of credit for about $15,000,000 of military equipment it already had on order.

The rapid loss of foreign exchange forced the Indonesian Monetary Council to take more stringent measures to safeguard the remnants of their exchange. The absolute authority of the Minister of Economic Affairs (through the Central Office of Imports)to grant import licenses was curtailed in May, when a new

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1/ Payments of US$1.7 million, 10 million, and 5 million were due on June 13, July 1, and August 14, respectively.

regulation was issued requiring all such licenses to carry the countersignature (and approval) of an official of the Foreign Exchange Fund (which is directly under the Bank Indonesia,[1] whose Governor is also a member of the Monetary Council) and ultimately the Monetary Council itself (which includes the Minister of Finance as Chairman and third member). A weekly quota of only Rp. 50 million in import licenses was established, after which further curtailments made the final tranche of the 1953 - 1954 foreign exchange year (May - August), the most meager since the transfer of sovereignty. Furthermore, F.E.F. countersignatures were also required on export licenses in an effort to end the scandalous waste of foreign exchange through "special" export licenses.

The belated remedial action halted the negative trend of the foreign exchange movements by the end of July, when the net exchange status was Rp. 966 million. The apparent large improvement in the following month was only partially (Rp. 76 millions) due to normal exchange movements; the $15 million purchase from the International Monetary Fund provided a significant source of exchange which would not recur in the forseeable future. An estimate of the improved foreign exchange picture at the end of August appears below:

Net Foreign Exchange Position, August 31, 1954
(in millions of rupiahs)

Gold in the Bank Indonesia	Rp. 1,088.9
Gold in the Foreign Exchange Fund	36.7
Foreign exchange assets, Bank Indonesia	297.0
Net exchange assets, nine other exchange banks	488.6[2]
Net liabilities, Foreign Exchange Fund	- 745.0[2]
Others	46.8
Net foreign exchange	Rp. 1,213.0

Source: Ministry of Finance, Bank Indonesia.

The Bank Indonesia charter provides that its gold and convertible foreign exchange reserves cannot fall below 20% of its issued banknotes and current liabilities. During the first year of its existence, the ratio plummeted steadily downward, stirring up political and economic controversies,[3] and soon thereafter a nadir of 19.49% was reached (at the time the Bank's balance sheet for July 14 was published). Anticipating this move, the Monetary Council, as authorized by the Bank charter, established a new minimum cover of 15% for an emergency period of three months by its Decree No. 1 of July 12, 1954. The

1/ By Government Regulation No. 19 the Foreign Exchange Institute (and FEF) was transferred from the jurisdiction of the Ministry of Finance to the Bank Indonesia on March 13, 1954.

2/ Embassy estimates.

3/ For details of the controversies within and outside the Government, see Despatch 514 of February 10, 1954.

following week, however, the ratio rose again above the statutory limit and has hovered above it ever since.1/ The fluctuations in this ratio since the establishment of the Bank of Indonesia are indicated in the following table:

Ratio of Convertible Reserves to Current Liabilities
(in millions of rupiahs)

Date	Gold (BI)	Gold & US/ Can.$(FEF)	Total Reserves	Banknotes in circ.	Other cur. lia.	Total cur. lia.	Ratio
1 July 53	2,297	21	2,318	4,960	1,198	6,158	37.64
30 Dec. 53	1,651	135	1,786	4,920	1,389	6,310	28.31
31 Mar 54	1,358	224	1,582	5,105	1,559	6,664	23.73
30 June 54	1,256	288	1,544	5,938	1,542	7,480	20.64
14 July 54	1,256	298	1,554	6,040	1,756	7,795	19.94
29 Sept 54	1,055	775	1,830	6,321	2,230	8,551	21.40

The major shift in the reserves during 1954 took place in August when Rp. 171 million of the Bank Indonesia's "Claim on the Government on Account of Gold Deposited on its Behalf with the I.M.F. (and I.B.R.D.)", which was considered part of the B.I.'s gold holdings, was transferred to a Special Account (convertible foreign exchange) of the F.E.F. at the time the $15 million purchase from the I.M.F. was made.

As imports into Indonesia fell off in the third quarter while exports were being maintained, the convertible foreign exchange in the F.E.F.'s Foreign Exchange Account rose steadily (while the foreign liabilities of the F.E.F. levelled off on a high plane). On the current liabilities side, however, the rise in deposits of others with the Bank Indonesia continued, although temporarily slowed down in mid-year as many Government foundations operating in the economic field (primarily the Copra Foundation) carried out instructions to transfer their accounts from the Bank of Indonesia to the Treasury.

C. The Money Supply

Details on monetary developments during the first half of 1954 are available in Bank Indonesia Bulletin No. 3 (see Despatch 142, September 21, 1954).

A steady rise in Bank Indonesia notes in circulation--Rp. 1,401 million--took place during the first three quarters of 1954. Whereas this rise could easily be followed from the weekly balance sheets, a much greater time lag occurred before data on Government notes was made available, following the ending of the practice of indicating these amounts at the bottom of the Bank of Indonesia balance sheets. After June 30, notes of the old Netherlands Indies regime were no longer recognized as legal tender.2/ By the end of July Rp. 224 million out of Rp. 230 million Rp. 5 and Rp. 10 notes of the R.I.S. (United States of Indonesia) bearing the picture of President Sukarno and issued

1/ For recent details on the current liabilities coverage, see Despatch 182, October 5, 1954.
2/ Emergency Law No. 2 of 1954.

in 1950 were still in circulation. And, out of Rp. 375 million worth of Rp. 1 and Rp. 2.50 notes printed in and dated "1951" and "1953" authorized by Government Regulations No. 20 of 1953 and No. 38 of 1954, Rp. 173 million were in circulation. Despite the dates, these notes were first issued in 1953 and 1954, respectively.

Coin circulation also continued on the up-grade, rising to Rp. 143 by the beginning of June.

D. Cost of Living

Ever since the transfer of sovereignty, Indonesia has been faced by a creeping inflation. Now, however, with greatly increased amounts of money in circulation while imports are being sharply curtailed, the inflation appears to be rising faster than previously. Not only is the cost of living of the persons who utilize many consumer goods from abroad, rising, but even persons in the lower wage scales are being hit.

A cost of living index for an upper middle-class Dutch family, also comparable for professional Indonesians and those in business and the higher branches of the civil service, based on costs in Djakarta on January 1950 (the first full month of Indonesian sovereignty), which stood at 198 in December 1952 and 238 in December 1953, had risen to 244 in June 1954 and 255 by September. (Appendix II.)

The cost of living index for lower civil servants, based on Djakarta expenses in November 1949, had stood at 170 in December 1952. From a level of 198 in December 1953, it slowly rose to 203 in June 1954 and 204 in September. (Appendix III.)

The bulk of the Indonesian population consumes such items as the 19 foodstuffs the prices of which are polled each month throughout the country. From an index derived from prices of these foodstuffs in Djakarta in December 1949, it is apparent that within the first three years of Indonesia's sovereign existence, food prices had doubled. The index number, which averaged 198 in 1952 and 211 in 1953, rose to 220 in June 1954, and 223 in September. (Appendix IV.)

Despite price control both on domestic manufactures and on imported goods, whenever there is a short supply of an important consumer good or industrial material, speculation frequently drives prices up far above their legal ceilings, forcing stricter government control measures (for example, on textiles and flour). At the time of writing, as a direct result of contracted importations, many commodities are being sold at two, three, or more times their normal price. Consequently, the rises indicated in the above index series, should increase at even sharper rates before the year's end.

While commodity prices were creeping upward, the gold and dollar markets underwent marked variations, reaching peaks during the end of the third quarter when rumors of devaluation were rampant. The price of a gram of #1 gold,[1] after

[1] See Despatch 559 of March 2, 1954, for a report on the Indonesian gold market.

fluctuating around Rp. 40.00 during the first half of the year, took off in July and reached Rp. 50.50 by the third week of September. Only after economic police cracked down hard on speculators in gold did the price begin dropping a bit at the month's end. Dollars, on the black market, rose from a Rp. 27.00 quotation at the end of 1953 and hovered at Rp. 29.00 until June when they dropped to Rp. 26.00 (and in some markets, to Rp. 23.50). By August, however, they were following the gold rise, and were being quoted at Rp. 31.50 by the end of the third quarter. (Appendix V.)

E. Banking

There were only a few noteworthy developments in the field of banking during the first three quarters of 1953. The Bank Indonesia's commercial department was the subject of Parliamentary debate, and although the Bank charter required that this department be removed from the country's central bank, no agreement has been reached on where the business should be transferred. The Bank Negara Indonesia, which grants credits to Indonesian importers and exporters, stated its willingness to take over the business, but many quarters doubted its ability. Others suggested that the Bank Indonesia commercial business be distributed among private Indonesian banks, the Bank Umum Nasional (the bank of the P.N.I., the leading governmental party), coming up for frequent mention by its own supporters. Debates also arose over the disposition of the Bank Indonesia's Amsterdam branch, which according to Dutch law had to be incorporated.

The country's industrial development bank, the Bank Industri Negara, continued its efforts at financing projects around the country. The so-called "frozen RURNI" holders were granted a measure of relief after February, 1954, when their funds were made available for purchase of B.I.N. 3% 15-year bonds up to a total of Rp. 50,000,000. (Despatch No. 548, February 26, 1954.) These funds were to be used in financing government housing projects. Of incidental interest is the fact that the B.I.N. is acquiring new housing for itself with a pretentious new office building in mid-Djakarta. The interest and portions of the principal of the new bonds may be transferred abroad annually. By August, the Monetary Council had agreed to the issuance of a second tranche of RURNI funds up to Rp. 50,000,000 for the purchase of B.I.N. bonds.

The Postal Savings Bank keeps slowly but steadily expanding, as net deposits have risen from Rp. 123 million at the beginning of the year to Rp. 136 million by mid-year.

The Government's credit bank for middle-class entrepreneurs, the Bank Rakjat Indonesia, entered 1954 under the shadow of an imbroglio between its central management and members of its branches in West Java, arising from political and policy disagreements. (Despatch No. 539, February 24, 1954.) Its old president was removed under pressure from below and put in charge of the Netherlands-Indonesian Union. With the liquidation of this organization, however, it is rumored that he will return to the B.R.I. management.

Meanwhile, the Bank Umum Nasional, which had been founded by the present Ministers of Finance and Economic Affairs, among others, continued to grow fat with Government business. By mid-year it was reported that its stock was being offered at up to sixty times par.

IV. Agriculture

Rubber. Estate Rubber production totaled 137,752 metric tons, a decline of 15,142 metric tons when compared with the corresponding period of 1953. No figures are available on smallholder production. Exports, on the other hand, increased during the first six months of 1954 as compared with those for the same period in 1953, although the total value was much less than in 1953. Exports of estate rubber totaled 128,470 metric tons, as compared to 153,288 in 1953, while that of smallholders increased from 176,843 metric tons in 1953 to 217,636 metric tons in 1954. The total value of exports was $103,576,140 (Rp. 11.40/U.S.$) as compared to $145,017,544 for the corresponding period in 1953.

Although the total value of exports showed a decrease, the prices of Sheet 1 and Crepe 1 "first costs" showed average increases over the period of Rp. 1.70 and Rp. 1.46, respectively. Several factors contributed to the rise in prices, among which were decrease in exports of estate rubber, rumors of shipments of rubber from Indonesia to Communist China, the Geneva negotiations for a settlement of the war in Indo-China, purchases by Spain and Latin American countries, and increased demand for Indonesian rubber in New York. Unfortunately, too great a proportion of Indonesian rubber production is in the lower-priced grades, and although efforts are being made to remedy this defect the average Indonesian smallholder is still content to produce low-grade rubber with its resultant lower foreign exchange earnings.

Rice. During 1954, Indonesia took a big step forward in her efforts to reach self-sufficiency in rice. Production for the year is now estimated at 7.6 million etric tons of milled rice equivalent, an increase of approximately 11% over 1953, and a new record for rice production. With this increase, the need for rice imports declined accordingly, and the Food Foundation's imports of rice were limited to 100,000 metric tons, mainly for price stabilization and reserve purposes. The adequacy of rice supplies was shown by the fact that prices in the local markets did not change appreciably during the period under review.

Sugar and Coffee. Estate production of sugar and coffee during the first six months of 1954 declined 31% and 61% respectively when compared with the comparable period in 1953. Exports, on the other hand, rose considerably, reflecting a large increase in smallholders' production of these two items. Sugar production is expected to increase even further, and Indonesia has contracted to supply Japan with 125,000 tons this year. Total coffee production in 1954, however, is expected to be less than that for 1953, mainly because of poor growing weather.

Copra, Palm oil and Palm kernels. Production and exports of copra, palm oil and palm kernels during the first half of 1954 compared relatively favorably with those for the corresponding period in 1953. Copra production for the six-months period totaled 217,102 metric tons, a decrease of 3.5% from the first half of 1953. Exports, on the other hand, totaled 147,932 metric tons, or 31% above those for 1953. Value of copra exports during the first six months of 1953 was Rp. 319,878,?27 an increase of 27%.

Production of palm oil and palm kernels totaled 78,414 and 20,269 metric tons respectively, while 54,623 metric tons of palm oil and 17,663 metric tons of palm kernels were exported.

Combined exports of palm oil and palm kernels were valued at Rp. 143,663,755, 89.5% of the comparable 1953 figure.

With increasing world supplies of vegetable oils, the future does not look too promising for the Indonesian producer.

Tea. With both production and exports up considerably, the tea industry continued to show improvement over 1953. Production of 45,369,468 half-kilos during the months of January-June, 1954, reflected an increase of 10,095,468 over the corresponding period in 1953. The export market also showed considerable improvement, with exports of 21,606,517 half-kilos, valued at Rp. 202,379,404 up 27% and 50% respectively from the comparable 1953 figures.

Reports of recent flood damage in India with resultant high prices on the London market give promise of increased foreign exchange earnings from tea during the rest of 1954, provided, as one of the major Djakarta tea brokers points out, consumer resistance to higher prices does not set in.

V. Mining

With the exception of petroleum and manganese, the pace in the mineral field in Indonesia slowed down somewhat from the high levels prevailing during 1953. Crude petroleum and manganese production expanded 3% and 23% respectively over the corresponding period in 1953. On the other hand, production of coal and bauxite declined 8% and 49% respectively. Tin production was maintained at just about the same rate.

In general, export totals followed production trends, but this was not always true. Exports of manganese declined approximately one-third, while exports of tin and bauxite increased 10% and 58% respectively.

Early in the period under review, falling world prices and the expiration of the Indonesia-RFC tin purchase contract decreased the amount of foreign exchange received by Indonesia for her mineral exports. Towards the end of the period, however, there was a tendency for prices, particularly tin prices, to stop dropping, and even begin a slight increase. The signing of the new RFD contract assisted in this price firming.

The shock of lessened foreign exchange receipts, however, caused Indonesia to look for new customers, and it was noted that in her trade agreements signed with satellite countries, Indonesia agreed to make available a combined total of 12,500 tons of tin to Rumania, Poland and Czechoslovakia, and Rp. 10,500,000 worth of tin to Hungary.

During the first half of the year, the Indonesian Government formed the P.T. Pembangunan Pertambangan, Mining Development Company. This Company is to

assist in the exploitation of mineral deposits in Indonesia. It is financed by the Bank Industri Negara, State Industrial Bank, and has already hired one German technician in connection with the development of Indonesian sulphur deposits.

VI. Industry

The Government has continued to encourage the establishment of new industries and to press for the Indonesianisation of industry as rapidly as possible. There has also been a trend toward investments in industries and away from trade as a result of the Government's import restrictions, lack of foreign exchange, etc. Bottlenecks still exist, however, among the most serious being the lack of security in certain areas, insufficiency of electric power, lack of credits, and the fact that prices of national products in many cases are higher than those of imported goods.

Most of the emphasis has been on small and handicraft industries, with priority given to the establishment of industries capable of using materials available in Indonesia and therefore not requiring foreign exchange. The Government has also attempted to set up parent plants for the various branches of small industries, viz., ceramics, iron and copper foundries, sawmills, umbrella factory, cardboard factory, ramie mills, roof-tiles factory, slate factory, etc., and to encourage mechanization and standardization.

New industries have been established in the following sectors: glass, plastic, toothbrushes, buttons, bicycles, and tires. As in the case of tires, the Government's import restrictions have forced increased domestic production. A new cement factory is also being built at Gresik, a paper mill and automobile tire factory at Palembang, and an automobile assembly plant at Surabaja.

VII. Transportation

Aviation. On March 24, 1954, the Indonesian Government and KLM signed an agreement for the nationalization of Garuda International Airlines. The agreement, effective April 30, provided for complete ownership of GIA by the Indonesian Government, Indonesian management to be appointed by the Government, and for technical assistance by KLM until 1960. In addition to the price of the shares owned by KLM, valued at Rp. 15 million, the Indonesian Government agreed to pay KLM reasonable profits for the period during which its capital had been invested in the company. The new management was officially installed on July 12.

At the time of nationalization the airline employed 106 pilots, 47 flight engineers, and 49 radio operators, none of whom were Indonesians. The company now has 28 Indonesian pilots, and expects to have a total of 44 by the end of 1954. Of these, 8 are former Air Force pilots, 20 are graduates of the Air Training Service at Hamble, England, 2 will complete their studies in the Netherlands this year, and 14 will graduate from the Indonesian Aviation Academy. All of these men will serve as co-pilots for a period of two years.

The Government has determined that no more men will be sent abroad for training as pilots, but that all training will be done at the Indonesian Aviation Academy located at Tjurug, near Djakarta. The Government has also established the Technical Aviation Middle School for training other personnel. The first class consists of some 100 students, half of whom come from outside Java.

GIA at present has a total of 54 airplanes, i.e., 20 Dakotas, 4 Catalinas, 14 Herons, 8 Convairs 240 and 8 Convairs 340. It is also continually expanding its operations to include new routes. During the last few months it has extended its services to Bengkulu (Sumatra), Kupang (Timor), Tandjung Karang (Sumatra), Rengat (Sumatra), and Pontianak (Borneo). A new airfield was completed at Sungai Durian, near Pontianak, last July, and on September 1 STANVAC turned over to the Indonesian Government the Djapura airfield near Rengat.

The operations of the Pioneer Aviation Corporation have been curtailed by the Government. GIA took over Pioneer's Djakarta-Tandjung Karang route, and the Government ordered it to cease its services on that run since it was competing with the national airline. In a letter to Parliament, the Pioneer Aviation Corporation proposed that it be given the right to concentrate on all aircargo and airfreight routes in Indonesia, while GIA would handle all the passenger traffic.

KLM and BOAC have increased the frequency of their flights into Djakarta, and KLM has instituted tourist service, using Super Constellations for the purpose.

Shipping. The Royal Packet Navigation Company, K.P.M., continued to hold the lion's share of the interinsular shipping service, although it withdrew six freighters, or about 8% of its service, during 1954. The company also managed to increase its rates, reportedly because of increased operation costs. In the meantime, there have been continued demands for nationalization of the company. In view of the company's predominant position in the trade, the absence of any adequate Indonesian alternative methods of transportation, and plans made by the Dutch to prevent the ships from falling into the hands of the Indonesians, it is not likely that the Government will attempt to nationalize the company in the foreseeable future.

The Government's efforts to enter the shipping field have not been outstandingly successful. PELNI (Pelajaran Nasional Indonesia P.T. - Indonesian National Shipping Co.) and INACO (P.T. Perusahaan Pelajaran Indonesia - Indonesian Navigation Company, Ltd.) are reported to be in serious financial condition as a result of corruption, bad management, inexperienced personnel, lack of control and politics. New ships have been purchased from Japan, Belgium and Italy, while small vessels have been built in Indonesia.

Security in the harbors has improved, although there is still considerable pilferage. In the principal ports the police have been taking effective measures to overcome this problem, although there is still great room for further improvement.

A new harbor was inaugurated on July 16 at Bitung (Minahasa). The docks which are to measure 430 meters, only 145 of which have been completed, will be used primarily for shipping copra. There has also been some agitation for greater Indonesian control of warehousing space at Tandjong Priok, the harbor of Djakarta. It is reported that only 17% of the space is in Indonesian hands, while the balance of 83% is in the hands of foreign enterprises under contracts running 10 to 25 years.

In the field of international shipping, West Germany and Yugoslavia have established direct shipping service to Indonesia. The Hamburg-America Shipping Line which joined the Java Shipping Conference and was readmitted to the Indonesia-Europe Conference, resumed its service to Indonesia. Also, the Jugoslavenska Linijska Providta has inaugurated a service to Indonesia.

A salvage agreement signed with Japan last January has not as yet been ratified by the Indonesian Parliament. The agreement provides for the salvaging of some 60 vessels sunk during World War II, with the costs to be borne by Japan as part of reparations payments.

On July 10 a Shipping Directorate was established in the Ministry of Communications. Its functions are to improve navigation, to formulate necessary regulations, and to consider the problem of a maritime council.

VIII. Labor

Labor. The first three quarters of the year brought no drastic changes to the labor scene in Indonesia. SOBSI, the communist-dominated labor federation, which is by far the strongest, seems to have reached a plateau, having made no substantial gains during the first three quarters of the year. This is believed to be due not so much to the fact that it could not, but that its parent organization, Partai Kommunis Indonesia, had decreed that emphasis and organizers should be shifted to the political arena, with particular attention being paid to the peasant scene, where Barisan Tani Indonesia, the communist peasant organization showed increased activity.

KBSI, the non-communist federation headed by Kusna, made some small gains, but because of the dearth of funds (which always seem to be available to SOBSI) wasnot able to capitalize on SOBSI's relative inaction.

There were no major strike actions during the first eight months, no doubt due to the fact that WFTU ordered a "soft" policy for its members at the Congress held in Vienna in October, 1953.

Employment. Since there are no employment statistics of any kind available for the whole of Indonesia, it is most difficult to attempt to arrive at an overall estimate of employment levels in the country. The only figures available come from the Central Labor Exchange which reported that the number of registered unemployed totaled 233,549 in 1953. Of these, 22,273 had been provided employment. Registrations make up only a very small percentage of the total unemployed and are only a very tenuous measure at best.

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Wages. Wage statistics are also unavailable, the only measure of wage movements being the decisions of the P4P, the Central Arbitration Board, which passes on almost 100% of all wage demands. Generally, the upward trend in the wage structure was slowed down during the first eight months, with the Arbitration Board seeking to check the inflationary pressure of wage increases. For the most part, any wage increases granted were on an industry-by-industry, or even factory-by-factory basis, and most of them were limited to about 10%. The last large wage increase, both as to the number of workers and the percentage was that granted SARBUPRI, the communist-dominated estate workers union. It came in September of last year, when the Cabinet overruled the P4P to raise its award from 12% to 19% for some 750,000 estate workers.

The Department is requested to send copies of this despatch to Medan, Surabaja, Singapore, Hong Kong, and The Hague.

For the Charge d'Affaires, a.i.:

John Gordon Mein

John Gordon Mein
First Secretary of Embassy

Appendices (5)

I. Government Expenditures and Budget Amounts for First Five Months of 1954.
II. Cost of Living Index Numbers, Dutch Family in Djakarta.
III. Cost of Living Index Numbers, Government Official in Djakarta.
IV. Retail Price Index Numbers, 19 Food Items on the Free Market, Indonesian Family in Djakarta.
V. Free Market Gold Prices and Black Market Dollar Rates.

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